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Looney, Robert L.

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Morales Walks the Populist High Wire

Morales talks big populist talk. Here's how it's actually working out.

BY ROBERT LOONEY

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Bolivia is different: With some 30-plus indigenous groups accounting for two-thirds of its population, it has the highest percentage of native American peoples (almost all of whom are poor) of any South American country. Since 2006, the administration of Evo Morales has been intent on turning the established political and economic order **upside down**, displacing the non-indigenous ruling elite and challenging the influence of both the United States and the free market system. It's a high-risk experiment that's largely isolated Bolivia in an era of global integration.

Morales, an indigenous leader and former coca grower, campaigned for office promising radical change. And his success (he won a fair election in 2005) was as much a testament to the desperation of Bolivia's poor as to Morales's charisma; Bolivia had the most unequal distribution of household income of any country in Latin America.

Shortly thereafter, he rammed through constitutional changes that reordered political power in favor of the indigenous majority and triggered the piecemeal nationalization of what Lenin called the "commanding heights" of industry. He has since governed with an eclectic strategy that blends a determination to address the wretched living standard of the indigenous majority with a surprising degree of pragmatism. (The photo above shows Morales handing out fake bills as part of the Alasitas festival.)

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Morales' first economic priority was to undo the 1990s reforms of President Gonzalo Sanchez de Lozada, arguably the most devoted believer in economist Jeffrey Sachs' **prescription** for rapid a transition to free markets. Sanchez de Lozada's brand of "shock therapy" included the partial privatization of key industries — electric power, railways, telecoms — along with an invitation to foreign investors to buy control of former state companies on the condition that they invested heavily in the economy.

Most of these industries have been re-nationalized, with foreign investors a key target. In December 2012, Morales decreed the **nationalization** of shares held by the Spanish firm Iberdrola in two electricity distribution companies. It was 15th takeover of foreign assets since Morales assumed power. More significant, this one may have ushered in a new chapter in the assertion of state control of the economy, since Iberdrola's holdings had never been state enterprises. And the beat goes on: In February, the government nationalized the Spanish company that **operates** Bolivia's three international airports, charging it was reaping "an exorbitant profit with a derisory capital input."

Not surprisingly, foreign investors are making themselves scarce. The lack of foreign investment has been partly offset by strong increases in public investment, with greatly increased involvement of key state corporations including *Yacimientos Petrolíferos Fiscales Bolivianos* in the oil and gas, and Comibol in mining. But Bolivia's state enterprises lack the technological proficiency and financial reach of multinationals, a reality that is slowing resource development. The situation is especially critical in the natural gas sector, where exportable surpluses (and foreign exchange earnings) will soon begin to decline unless new reserves are identified and accessed.

Another major economic stumbling block has been new barriers to trade with the United States. Morales has refused to cooperate in the suppression coca production, which remains a major cash crop for indigenous farmers in the Bolivian highlands. Playing tit-for-tat, the Obama Administration pulled the benefits Bolivia was due under the Andean Trade Preferences' Act, a law specifically designed as an incentive for South American countries to show more enthusiasm toward the war on drugs.

Morales, incidentally, shows no signs of giving way. Far from retreating from its stance, Bolivia obtained an exemption from its obligations under the [U.N. Single Convention on Narcotic Drugs](#) in January 2013 that requires signatories to bar domestic coca consumption. This exemption represents a significant alteration of the convention, one that was long and rigorously opposed by the United States.

The loss of the right to export tariff-free to U.S. markets matters little with natural resources, where markets are truly global or (in the case of natural gas) the only logical customers are Brazil and Argentina. But it does limit Bolivia's ability to reduce the economy's dependence on hydrocarbons, tin and zinc — in particular, efforts to diversify into labor-intensive textile manufacturing. It may also put the kibosh on plans to produce batteries from Bolivia's [vast deposits](#) of lithium.

What's more, the empowerment of the powerless has not always worked in Morales' favor: His policies are also being tested by the very indigenous groups they were designed to benefit. Since late 2010, a number of native groups have been [protesting](#) the failure of his government to consult sufficiently on infrastructure projects. The government suffered a major embarrassment in August 2011, when over 1,000 people of marched 500 kilometers across the Andes to La Paz to oppose construction of a [highway](#) that the government claimed was critical for the development of sparsely populated eastern lowlands.

By the same token, indigenous groups have staged numerous protests to block gas development, despite the fact that most social programs are financed out of gas export revenues. They have also blocked attempts to bring the country's vast lithium deposits into production. One recent academic [study](#) estimated that protests, strikes and other social conflict reduced Bolivian GDP growth by an average of one percentage point annually between 1970 and 2004 — a figure that is likely to have risen since in light of the ongoing high-profile protests.

This is not your usual "perils of defying the capitalist gods" tale, though. Given low levels of foreign investment, lack of favorable access to U.S. markets and the destructive effects of the ongoing protests (not to mention significant drop in foreign aid), Bolivia's overall economic performance has been surprisingly good. According to the U.N.'s Economic Commission for Latin America and the Caribbean (ECLAC), about 62 percent of the population lived in poverty in 2002; by 2010, that figure had been reduced to 42 percent.

While Morale's critics claim this decline was simply a byproduct of Bolivia's participation in the global commodities boom, ECLAC found otherwise. Resource-fueled growth, they concluded, explained only one-third of the reduction in poverty; Bolivia also experienced a fairly sharp drop in income inequality that was almost certainly a product of government policy.

It's worth noting, moreover, that despite the Morales Administration's reputation for radicalism, the government's macroeconomic management—including debt reduction and the build-up of foreign exchange reserves — has been extremely effective. A January 2013 IMF report cited Bolivia as one of only a handful of Latin American countries (including Chile, Paraguay, Peru and perhaps Colombia) in "a relatively solid position to withstand sizeable shocks — even responding with expansionary policies – without putting fiscal solvency at risk."

Maybe it should not be surprising, then, that late last year Bolivia was able to sell bonds on the international bond market for the first time since 1917. The interest rate demanded by lenders was below five percent — less than the rate being paid by Spain.

The oft-told tale of contemporary political economy concludes that market liberalization is the key to economic development, and that growing income inequality is an unfortunate but nearly inevitable byproduct. That story — or at least the red-meat version that gained prominence in the last decade — is now being tested in Latin America. On the one hand, the troubles dogging Venezuela suggest that the road to economic hell is still paved with populist intentions. On the other, Brazil's economic success (albeit modest success) is surely evidence that growth and economic justice need not be incompatible.

And where does Bolivia fit the schema? It's hard to say. Morales may talk the same talk as Hugo Chavez, but he doesn't walk the same walk. It's possible that Bolivian populism is living on borrowed time, that the leveling of global commodity prices, the alienation of foreign investors and the inherent inefficiency of state-owned industry will soon enough slow growth to a crawl — and that competing claims to a dwindling economic pie will thereafter overwhelm and destabilize the government. But it's also possible that the empowerment of Bolivia's long-suffering indigenous majority will lead to a virtuous circle in which free enterprise can make a gradual comeback. History has a way of undermining conventional wisdoms.

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